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ELIMINATING AUTOMATIC STEP INCREASES AND CONTROLLING SUPERVISORY COSTS IN LOS ANGELES COUNTY GOVERNMENT

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Report by the Task Force on Management and Finances

[City of Los Angeles County]

LOS ANGELES COUNTY

ECONOMY AND EFFICIENCY COMMISSION

September 1976

County Office
LA 90012

ELIMINATING AUTOMATIC STEP INCREASES AND CONTROLLING SUPERVISORY COSTS IN LOS ANGELES COUNTY GOVERNMENT

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Report by the Task Force on Management and Finances

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PREFACE

On October 28, 1975, on motion of Supervisor Hahn, the Board of Supervisors asked the Economy and Efficiency Commission to review the causes of the financial crisis in New York City and make preventative recommendations to safeguard Los Angeles County from a similar disaster.

This is the second in a series of reports which we are submitting in response to the Board's request. At its regular meeting on June 15, 1976, the Board received and filed our first report in the series, The New York City Crisis and Los Angeles County Government: Organization, Employment and Compensation.

The task force wishes to acknowledge the assistance and cooperation of County officials during the course of this study. In particular we thank the Chief Administrative Officer, the Department of Personnel, the Auditor-Controller, and County Counsel for their cooperation in supplying pertinent information and for checking our data. The conclusions and recommendations, however, are solely the responsibility of the task force.

I. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Many County government problems can be attributed to archaic tax structures, to unmanageable and inequitable intergovernmental relations, and to increasing demands for service. Nevertheless, some County government problems must be attributed to costly deficiencies in the County's internal operating and administrative systems.

By the time the recommended budget reaches the Board of Supervisors, there is no practical way to eliminate the costs which were generated by built-in elements of these systems, in some cases more than a year ago.

In this report we discuss two such sources of County costs, the automatic step salary increase plan and the supervisory structure. The excess costs they generate cannot be removed from any year's budget without prior correction of the administrative systems causing them. We estimate they account for at least \$30 million in excess annual costs, or approximately 12¢ on the tax rate.

Taxpayers are generally unaware of these costs. Step increases operate automatically and are not explicitly delineated in budget documents. Press accounts announce only the cost increase associated with the general wage increases agreed to through bargaining or otherwise granted by the Board of Supervisors. Thus step increases tend to become a forgotten cost in the County budget. Similarly, levels and costs of supervision are not explicitly delineated in public documents.

These systems are not unique to Los Angeles County. Automatic step increase plans in particular are found in government at all levels. The creation of new positions and the use of promotion as incentives have led to high levels of supervision throughout the public sector.

The task force believes that the circumstances which may have justified these systems in the past have disappeared. Today government salaries are generally competitive with the private sector. With few exceptions, County compensation levels are attractive. Additional financial incentives, such as step increases and extensive promotional opportunities are no longer necessary to attract and retain competent employees.

Recognizing this, Los Angeles County, other California counties, and the Federal Government have initiated efforts to correct these systems, but with little success. In 1971 Gordon Nesvig, then Director of Personnel in Los Angeles County, stated that the five-step plan should be phased out. In negotiations for this fiscal year the County proposed a one-year moratorium on step increases, but failed to reach agreement on this proposal with the unions. Thus Los Angeles County has recognized the necessity for and desirability of change.

Correcting the deficiencies of these systems will not be easy. It is in these areas, however, controlled by internal decisions, where the County has the greatest opportunity to accomplish effective reform. In this year of severe tax crisis the County, as the dominant force in local government, is in a position to take the lead in developing feasible and less costly alternatives to these systems. They can no longer be tolerated in today's environment of service curtailments and financial retrenchment.

Recommendation 1. - Automatic Step Increases

The Board of Supervisors should direct the Chief Administrative Officer and the Department of Personnel to eliminate the automatic step increase plan for all employees. This process should be initiated during budget planning and bargaining for fiscal year 1977-78 and continued in subsequent years until the present automatic system is entirely eliminated.

The automatic step increase plan is the County's method of placing individual employees within a salary range and allowing them to progress through the range. The range is divided into five steps. An employee serves one year on each step. Except for a negligible number of employees subject to discharge, progress through the steps is automatic. Each succeeding salary step is approximately 5.5% higher than the previous step, and the top of the range is approximately 25% higher than the bottom. The middle of the County range - the third step - is usually evaluated as close to the average rate paid for comparable work in the private sector. The County considers the entire range as representative of prevailing rates in the community.

The current annual cost of automatic step increases is approximately \$20 million.

Deficiencies - Three basic deficiencies in the present automatic step increase plan have led us to conclude that it should be eliminated.

First, the step increases together with other pay increases generate questionable pay raises for a substantial number of County employees. The Board of Supervisors granted an average 7% increase last year and a 5% increase this year. Because of the step increase plan, approximately 24,000 employees also received an additional 5.5% increase in each of these years. Thus for these employees the actual pay raise amounted to 13% last year and 10.8% this year, or 25% compounded over the two years.

Such increases can only be justified either by exceptional performance or by the assumption that the salaries of employees receiving them were below par. Neither assumption is valid. Performance has little bearing on step increases. With few exceptions they are automatic. Regarding salary levels, we know of no responsible authority who maintains that the County's salary levels are low relative to community levels, except perhaps in some isolated cases.

Neither is it true that these increases are limited to entry level and lower level positions. Step increases may continue when an employee is promoted to higher level positions, including supervisory and managerial positions up to the chief deputy level. The average salary increase granted those managers receiving step increases was 27.6% over the last two years. This group includes managers earning \$30,000 or more a year.

We present this information to illustrate the effects of step increases. We are not evaluating or criticizing individuals or their pay levels relative to their responsibilities. They have no influence over the system or their own participation in it. We do criticize a system which automatically generates such high pay increases at all levels without regard to merit.

Second, the step plan results in employees moving automatically to top pay rates. Now 48,000 or 58% of all County employees, are on the fourth and fifth steps. Since the third step of the County's range is usually close to the average pay in the private sector, these employees are receiving 5.5% to 11% more than the community average. In contrast, approximately 10,400 employees, or 13%, are on the first and second steps. Of the remaining 24,900 employees 8,600 are on the third step, and 16,300 belong to a different pay plan. We estimate that County salaries on the average are 5.2% above the third step - that is 5.2% above the level evaluated by the County as the average paid by industry for comparable work.

Finally, the step increase plan is incompatible with the collective bargaining system. In a balanced collective bargaining environment, the salary administration plan for managers must be part of a total compensation package - including fringe benefits and perquisites - which is distinct and separate from the compensation package for represented employees. Otherwise, those bargaining

for management can benefit from their agreements with the unions. Since the step increase plan applies equally to both groups, it is impossible to treat management employees differently in this regard. Moreover, it is difficult to bargain effectively when some of those represented will receive an additional 5.5% increase over the economic increase agreed to in bargaining and others will not.

Potential for Improvement - Feasible and less costly alternatives to the County's automatic step plan exist. The alternative systems require distinct and separate plans for management and represented employees. We discuss a number of possible approaches in the Appendix to this report. One alternative is to extend the use of flat rates to a greater number of employees. The County already uses flat rates for 2,200 employees, principally in construction craft positions. Other alternatives would feature salary ranges with materially different methods of controlling progress through the range. Any alternative designed to correct the deficiencies of the County plan will feature a strong mid-point control - that is, a method of ensuring that average County rates stay close to average competitive community rates.

Nevertheless, developing and implementing alternatives may be difficult and controversial. In government with its traditions of civil service, its legal constraints and years of past practice, the obstacles to change cannot be taken lightly. County officials cite possible labor unrest and strikes, increased administrative costs, and the prevailing wage clause as three principal obstacles to change.

Unions are not likely to accept less costly alternatives to the step plan without opposition or demands for substitute concessions. Our opinion is that in these times the public will support any Board effort to rid the taxpayer of a system which clearly has outlived its usefulness. A firm stand by the Board of Supervisors will be necessary to reject any concession which increases costs.

Regarding increased administrative costs, it is true that some investment in administration will be necessary to install and operate alternative plans. However, any increase in administrative costs will certainly not be comparable in scale to the annual \$20 million cost of the step increase plan. In comparison, the annual expenditure of the entire Personnel Department is \$8 million.

The prevailing wage clause in the County Charter is a major obstacle to change because of the potential for court challenges based on the clause. Our commission recommended deletion of the prevailing wage clause in a 1973 report on civil service and collective bargaining. We repeated our recommendation in our May, 1976, report. However, while the clause should be eliminated, we believe that the County can meet prevailing wage requirements without automatic step increases. The Board of Supervisors will need to adopt new methods of defining prevailing wages which meet the criteria of the courts.

The prevailing wage clause requires the County to pay salaries which are competitive with private industry. When and if the clause is deleted from the charter, the County will still have to pay competitive rates to attract and keep competent employees. No competitive rate requirement, however, requires the County to grant automatic step increases to its employees which result in 25% increases over two years.

The difficulty of making a change is no reason to perpetuate or defend a compensation system with the deficiencies we have described. To say that feasible and less costly alternatives cannot be found is to assert that in a public organization there is no way to develop and implement a compensation system which is compatible with collective bargaining, controls average labor costs, and avoids automatic pay increases.

Recommendation 2. - Control of Supervisory Levels

The Board of Supervisors should direct the Chief Administrative Officer to conduct detailed studies of supervisory levels in each County department and to include study results, plans for improvement, and their impact on cost in his budget recommendations for fiscal year 1977-78 and subsequent years.

In our May report, The New York City Crisis and Los Angeles County Government: Organization, Employment and Compensation, we recommended that the Board of Supervisors delegate to the Chief Administrative Officer (CAO) formal authority for organizational planning, development and control. We further recommended that the Board require the CAO to report annually on the findings and recommendations resulting from this effort and their impact on costs.

Need for Control - Since our May report, at the request of Supervisor Edelman and with the assistance of his staff, we have pursued the question of supervisory levels using improved data from payroll records. According to this data, the County last year spent \$190 million on supervision. This amounts to \$25 for each \$100 of non-supervisory labor. On an average the County employs one supervisor for every 5.8 subordinates. These figures are based on actual County practices as reflected in payroll records for fiscal 1975-76. They may differ from budgeted supervisory levels and from levels authorized by the Salary Ordinance.

We examined this data to determine whether further study by the CAO is necessary and promising. Our conclusion is that further investigation is necessary. The County appears to us to have too many supervisory positions. As many as 15 departments have supervisory ratios of 20% or more - that is one or more supervisors for each five subordinates. While such levels may be justified in special circumstances and may be common in the public sector, we are convinced that in many cases they represent a major departure from reasonable standards of

control. In addition, the question must be raised whether position reclassification and promotion policies have been used excessively to justify pay increases.

The Board of Supervisors cannot correct excessive use of supervision by executive order alone. Each department should be studied and a determination made on the suitability of current supervisory levels. These studies will involve complex budgetary and policy issues, such as the degree to which decentralized facilities and extensive quality control are required for a department's functions. Reduction in supervisory levels may not always improve efficiency - for example, small operating units such as engine companies in a fire department are more economical but result in high supervisory ratios. Furthermore, in at least some cases supervisory levels may be negotiable where supervisors are represented by County unions.

Required Action - Therefore, we recommend that the CAO conduct detailed investigations of the need for and use of supervision in each County department. Departments on occasion may differ strongly on such issues as which positions are to be counted as supervisory and which methods are to be used for improvement. Such methods may include demotion and layoff. For the least disruptive effect, the County should use attrition wherever possible to eliminate unneeded positions. Thus, improvement in the use of supervision will require difficult and sometimes controversial decisions involving practical problems of morale and humane personnel management. To be effective the CAO will require the full backing of the Board of Supervisors.

If the CAO finds that improvement is desirable and feasible, the potential benefits to the County are significant. Action to produce only modest improvements in the ratios - for example, from \$25 per \$100 to \$23 per \$100 -

could result in savings of \$13 million annually. We also emphasize that improvement would have non-monetary benefits. Over-supervision has damaging effects beyond the problem of cost. Communication deteriorates. Too many levels of supervision between operating personnel and management causes delay and distortion of information in both directions. As a consequence, morale and the incentive to perform decline.

We recognize that the County now performs several functions which are related to the control of supervision and organizational development. What is lacking is a central function with clearly designated responsibility to conduct further investigations, to integrate efforts toward establishing definitions and standards, to determine where improvement is needed, and to develop and implement plans for improvement with concerned departments.

If the CAO finds that a reduction in supervision should be made, the CAO and the department jointly should establish goals and a specific plan for reaching them. These plans should then be incorporated in the CAO's budget recommendations for the fiscal year.

II. EFFECTS OF AUTOMATIC STEP PLACEMENT

Description of the Plan

The County's step placement plan provides a means to place a County employee within the salary range established for his or her position. Most County employees are in such a step plan. Department heads, some temporary employees, manpower program participants, and construction trade employees are excluded. In most cases, the salary range is divided into five steps, with each step approximately 5.5% higher than the previous step. Some fire and police employees belong to seven-step plans, and a few employees belong to three-step plans. Certain physicians belong to a step payment plan designed specifically for them.

The rules governing step placement are enacted as law annually by the Board of Supervisors when the Board amends and adopts the Salary Ordinance (Ordinance No. 6222). The applicable provisions are contained in Article 5, Sections 70-87. We quote here from Section 70, which establishes general rules and applies to the majority of County employees. The remainder of the Article provides for special cases.

ARTICLE 5 Step Pay Plan

Section 70. APPLICABILITY OF STEP RATES

It is the intent of this ordinance that positions compensated under the step plan shall be required to work a year at each step rate except as provided below. In those positions for which compensation is indicated in Section 410 of this Ordinance by a schedule and level number on the Standardized Salary Schedule, the following general rules shall apply:

- (a) Original appointment to these positions shall be at the rate designated as the first step, except in the case of transfer, demotion, or promotion.

- (b) Except as provided in paragraphs (c) and (e) below, step advances shall be granted upon completion of one year of continuous service in the same position until the top step is reached.
- (c) Employees holding positions compensated on Schedule 23A or below shall be advanced to the second step of the salary range upon completion of six months continuous service.

(Remainder rescinded as of July 1, 1976)

- (d) By specific action, the Board may provide for step placement of an employee at any step within the established salary range for the position which he holds. The succeeding step advancement in such a case will be made thereafter on a yearly basis unless an exception is specifically authorized.
- (e) Notwithstanding any other provision of this Ordinance, a person for whom an Unsatisfactory or Improvement Needed performance evaluation has been filed with the Civil Service Commission shall not be granted a step advancement in the position held when such rating was given until a Competent or better rating is filed.

Basically, then, any employee whose salary is established as a range will receive a step increase on the anniversary date of employment during the first four years in a County position. An employee who is transferred, promoted, demoted or reclassified may continue to receive step increases in the new position, depending on the step in which he or she is placed in the new position. Consequently, many senior employees who have been employed by the County for ten or more years are still receiving step increases in addition to the other increases which they receive through the bargaining process or otherwise granted by the Board of Supervisors. This group includes middle and upper level managers.

The only employees in the step plan who do not receive step increases are those already on the fifth step and those facing termination. Anyone

whose performance is rated "unsatisfactory" must be immediately terminated, subject to appeal. Reinstated employees receive the same step placement as they had when terminated, and become eligible for the same increases once again. Similarly, according to County rules, employees whose performance is rated "improvement needed" will be terminated or reinstated to eligibility for a step increase within six months of receiving the rating. Such ratings are so infrequent that the number of employees in these categories is negligible.

Therefore, the principal factor governing the award of step increases is length of service in an employee's current position. As a practical matter, management cannot use the performance evaluation system to control step increases, because the only ratings that affect step placement result in automatic termination. Thus, the County's performance evaluation system has little effect on step placement. At most, it delays for six months the step increases given to a few employees.

Table I summarizes current available statistics for fiscal year 1975-76 and fiscal 1976-77. As the table indicates, the number of County employees receiving step increases is 26,942, or 32% of the County's total labor force of 84,287. Of this number 19,209 are scheduled for an additional step increase in fiscal 1977-78, and 10,617 will receive a step increase in fiscal 1978-79.

Step increases compound the wage increase granted an employee by the Board of Supervisors. When the Board adopts a pay increase, it raises the range of salaries paid for each position referred to in the Board Order. For example, the Board of Supervisors granted an average 7% range increase last year (fiscal 1975-76) and a 5% range increase this year (fiscal 1976-77).

If a person granted a 7% range or "schedule" increase by the Board last year was also eligible for a step increase, his or her actual raise for that year was 13%. The Board granted the same person a 5% range increase this

TABLE I.
STEP PLACEMENT OF COUNTY EMPLOYEES

Placement Level	Level of Employment			
	June Number	1976 %	June Number	1975 %
No Step *	16,296	19.3	15,766	18.8
Top Step	<u>41,049</u>	<u>48.7</u>	<u>38,157</u>	<u>45.4</u>
Total Not Eligible	57,345	68.0	53,923	64.2
Step 4	7,733	9.2	9,066	10.8
Step 3	8,592	10.2	8,025	9.5
Step 2	7,318	8.7	7,944	9.5
Step 1	3,148	3.7	5,037	6.0
Others **	<u>151</u>	<u>0.2</u>	<u>26</u>	<u>--</u>
Total Eligible	26,942	32.0	30,098	35.8
Total Employees	84,287	100.0	84,021	100.0

* Includes department heads, CETA employees, temporary employees, and fixed rate employees.

** For example, firefighters and deputy sheriffs on 6- or 7-step plans.

year. If he or she was again eligible for a step increase, the raise this year was 10.8%. As shown in Table I, the number of employees receiving step advances in both years was at least 23,643 - those now on the second, third and fourth steps. The aggregate raise for this group over the two years was 25%. In contrast, employees not eligible for a step increase, who received the same range increases, received 12.3% over the two year period. As we have explained, the difference between these two groups has nothing to do with performance or merit.

Since step increases affect individual percentage raises and their costs, they also affect average percentage increases for the County as a whole. The actual average increase granted County employees in 1975 (for fiscal 1975-76) was 9.1%, not 7.0% as generally reported to the media. The actual average increase granted County employees in 1976 (for fiscal 1976-77) was not 5%, as reported to the media, but 6.9%. The average increase in County wages for both years was 16.7%, in contrast to the 12.3% announced value of schedule increases.

Although merit is not involved in step increases, the incidence of step increases - and thus the cost - does depend on the type of position an employee holds. Table II summarizes the fiscal 1976-77 statistics for a sample of job families. As is evident from the table, step increases occur more frequently in certain administrative, professional and managerial job families - such as accounting, personnel, health services administration, and law - than they do in clerical and direct service classifications. Employee turnover is involved to some extent in such cases. However, turnover in the County is not large enough to explain the high proportion of employees in these groups receiving step increases. For example, turnover last year in accounting and personnel was 4.8% and in law, 8.2%. Reorganization and reclassification are also involved. For example, most of the positions in health services administration are new.

TABLE II.
INCIDENCE OF STEP INCREASES
(June, 1976)

<u>Job Family*</u> <u>(Series Title)</u>	<u>Number of Employees</u>	<u>Eligible for Step Increase Number</u>	<u>%</u>	<u>Average % Wage Increase Range</u>	<u>Actual</u>
Forestry and Park Maintenance	1,254	402	32	5.3	7.2
Accounting	870	440	51	5.0	8.0
Clerical	6,047	2,198	36	5.0	7.1
Personnel	442	254	57	5.0	8.4
Stenography and Typewriting	11,729	5,890	50	5.1	8.1
Harbor Patrol	28	8	29	5.0	6.7
Inspection, Weights & Measures	66	23	35	5.1	7.1
Professional Engineering**	339	74	22	6.8	8.0
Technical Engineering**	878	182	21	8.3	9.6
Physical Sciences	123	55	45	6.8	9.5
Health Services Administration	66	39	59	5.8	9.3
Laboratory	1,169	478	41	5.0	7.4
Nursing	7,257	2,600	36	5.1	7.2
Therapy	603	266	44	5.0	7.6
Welding**	48	0	0	17.2	17.2
Bridge Maintenance	8	2	25	10.2	11.7
Powder and Drilling**	12	0	0	2.7	2.7
Power Equipment Repairing**	313	12	4	12.9	13.1
Art	29	5	17	5.1	6.1
Library	933	156	17	5.0	6.0
Therapy Administration	51	24	47	5.1	7.9
Probation	3,157	1,336	42	5.0	7.5
Social Work**	7,367	2,999	41	4.0	6.4
Law	890	558	63	5.3	8.6
County-wide	84,287	26,942	32	5.0	6.9

* Job families are listed in the same order as they appear in the Schematic Classification Plan of the Salary Ordinance.

** Positions in which union contracts took effect in September, 1975. These will be renegotiated in September, 1976.

Costs

The current annual incremental cost of automatic step increases is approximately \$20 million. A brief summary of the computation follows.

As we have indicated, the average actual wage increase for the County this year will amount to approximately 7%. Using the Chief Administrative Officer's rule that each 1% of the wage increase costs \$10 million, the total annual cost of all increases will be approximately \$70 million. Since \$50 million can be attributed to the 5% average schedule increase, the remaining \$20 million is attributable to step increases.

Step increases are granted on the first day of the month nearest an employee's employment anniversary date, so the full cost of a step increase is not paid in the fiscal year in which it occurs. For example, only half of the annual cost of a January 1976 step increase is incurred in fiscal 1975-76. In fiscal 1976-77, of course, the County incurs the total annual cost of the January 1976 increase, plus half the annual cost of the January 1977 increase.

Therefore, the County budget for fiscal 1976-77 contains the costs of step increases incurred in 1975-76, plus the costs of step increases due in 1976-77. The total is approximately \$29 million - \$20 million from 1975-76 and \$9 million from 1976-77. This estimate is based on Auditor's records of the dates in which step increases were granted in fiscal 1975-76 and the amounts of those increases.

Since the Board of Supervisors could not reasonably act to rescind step increases granted in prior years, the maximum first year savings available from a moratorium on or elimination of step increases is \$9 million.

The incremental cost impact of step increases on the County's salary budget is affected by recruitment, hiring, turnover, and promotion policy. At present, the share of the incremental salary cost - that is, the increase in

the County's salary expense attributable solely to step advances - is declining. It will continue to decline as long as the hiring freeze is in effect, because more and more employees will reach the top of the salary range for their positions and become ineligible for step increases, unless promoted, transferred, demoted, or reclassified.

If the hiring freeze is lifted, more new employees will begin to appear at lower steps, and the incremental costs attributable to step advances will increase. Similarly, increased promotion rates and outside recruitment rates increase the incremental cost impact of step progression, because promoted, reclassified, and new employees appear most frequently at lower steps (but not necessarily at lower salary ranges.)

Average labor costs generally are lower during periods of expansion or when employee turnover is high. The reason is that employees hired at the low end of a salary range replace those leaving from the higher end, thus reducing average costs. Total costs, of course, depend on the size of the labor force and increase in periods of expansion.

At present, the County is in a period of contraction and low turnover (10% or less annually). Consequently, the number of employees at higher steps in the range is increasing, thus inflating average costs. As Table I indicates, 73,667 employees either belong to a different pay plan or are now paid at step 3 or above. As a result, the average County salary is approximately 5.2% higher than the third step, assuming that the average pay of those in a different plan is the equivalent of the third step. Since the third step is defined as the level closest to the average wage paid by private industry for comparable work, this means that average County wages are 5.2% higher than community wages, solely because of the operation of the step increase plan.

Advantages and Disadvantages

In the County, as in most public jurisdictions, the practice has been to use a salary range as the basis for compensation for most positions. As a consequence, some method is needed to place an individual employee within the range for his or her position. Automatic step placement is the method used almost universally by governmental agencies at all levels and by certain private sector institutions such as hospitals.

Three principal advantages support the use of automatic step increases. First, all positions are treated in exactly the same way - a standard practice in a civil service environment. Second, the plan is easy to administer because it is automatic. Third, in periods of instability, characterized by rapid growth or high labor turnover, step plans can be used to control average labor costs. A high proportion of employees are new and therefore at the lower end of the salary ranges for their positions.

However, these advantages disappear in periods of contraction and when collective bargaining is introduced. Both these conditions now prevail in Los Angeles County and can be expected to continue. In this environment, the automatic step plan develops several major deficiencies.

First, because step increases compound with percentage increases bargained for or otherwise granted by the Board of Supervisors, they result in percentage increases which we believe are questionable by any reasonable standard. As we have stated, the average raise for those receiving step increases in the last two years was 25%. For managers the average salary increase received over the two years was 27.6%. This group includes managers earning \$30,000 or more a year. Increases of 25% or more over a two year period are highly questionable at any time. They are particularly questionable in the current period of tax crisis.

Second, the system does not provide a workable means for cost control. As we explained above, average labor costs are now 5.2% higher than community averages because an increasing proportion of employees reach higher steps. This excess of County averages over community averages will continue to increase as long as the County's labor force remains stable or decreases.

In addition, regardless of expansion or contraction, the step plan creates pressure for position reclassification, pressure for creation of new positions as promotional opportunities, and pressure for more steps at the high end of salary ranges. These pressures reflect the natural motivation of employees on the top step to push for continued salary increases commensurate with those they have automatically received in the past. Thus, the County finds it difficult to control average labor costs and can experience great pressure to increase total labor costs.

Third, because the step plan operates in exactly the same way for all positions, regardless of level, it is difficult to distinguish between managerial and represented employees. Separate and distinct systems for the two groups are an essential prerequisite in any effective collective bargaining system.

Moreover, bargaining presents a problem when some of those represented will receive a 5.5% increase in addition to the economic increase agreed to in bargaining, and others will not. In a balanced bargaining system, the salary agreements negotiated by management and a union should benefit equally all employees represented by the union.

For these reasons, we believe that the County should eliminate its automatic step increase plan and seek alternative pay plans better suited to current County needs.

Alternative plans exist with many of the same advantages and none of the disadvantages of the current plan. Some examples of possible approaches are described in the Appendix to this report. The principal characteristics of the alternatives are that managerial positions are treated differently from represented positions and that average costs of labor are controlled to remain near the average rates paid for comparable work in the community.

The Obstacles to Change

Development and implementation of pay plans to replace the automatic step increase plan will take determined effort and will require strong leadership by the Board of Supervisors. In government with its traditions of civil service, its legal constraints and years of past practice, the obstacles to change cannot be taken lightly. Before undertaking this effort, the question must be addressed: What are the likely consequences?

One possible consequence is labor unrest. Unions are not likely to accept less costly alternatives to the step plan without opposition or demands for substitute concessions. Our opinion is that in these times the public will support any Board effort to rid the taxpayer of a system with as little to justify it as the automatic step increase plan.

A firm stand by the Board of Supervisors will be necessary to reject any concession which substantially increases costs. If, for example, the County yields to demands to place all employees on the top step in order to establish a flat rate system, the new system will generate costs far exceeding those of the current plan. Average County rates would then be at least 11% higher than average community rates. Such demands are possible because union bargaining committees tend to be dominated by employees on the top step. Clearly, any

effective alternative must control County rates so that they are close to community averages for comparable work.

Still another potential problem in implementing a change is an increase in administrative cost. The step increase plan, as we have noted, is simple to administer. New plans could be designed to require so much more effort and information gathering that administrative costs would increase. This would be true, for example, if the County implemented a different plan for each of the 50 bargaining units. Administrative costs would also rise if performance evaluation were used to control wage increases for all County employees.

On the other hand, the approaches we describe in the Appendix, patterned after industry models, should not require significantly higher administrative costs. We should point out that increases in administrative costs equal to the \$20 million cost of step increases would be large indeed. The Personnel Department now spends approximately \$8 million annually in all its activities. To spend \$20 million on wage and salary administration would mean creating new administrative costs more than double the current costs of the entire Personnel Department.

We do not imply that the County will incur no additional administrative costs, but rather that we do not view them as comparable in scale to the cost of step increases. For example, new systems will require computer support. However, we have verified with the Department of Data Processing that elimination of the automatic step plan will not cause significant delays or substantial revision of the new computer systems scheduled for implementation in 1977.

Similarly, implementation of new salary administration plans will doubtless require an investment in training for managers and others responsible for its operation. Such training is always necessary with any improvement of a management system. Moreover, it should be integrated with planned training

in such techniques as management by objectives, program budgeting, and participative decision-making.

The prevailing wage clause in the County Charter is also an obstacle to change. Because the clause provides a possible basis for court challenge on points that may or may not be related to the specific change - in this case, the step increase plan - the threat of litigation is always present in union negotiations. The Supreme Court stated in 1958 that the Courts would not interfere with the Board's determination of whether proposed rates are in accord with generally prevailing rates unless the "action is fraudulent or so palpably unreasonable and arbitrary as to indicate an abuse of discretion as a matter of law." Nevertheless, the Superior Court appears to have interfered with the County's methods of determining prevailing wages in a recent case (Los Angeles County Mental Health Physicians Association vs County of Los Angeles C88207).

Our commission recommended elimination of the prevailing wage clause in our 1973 report, Civil Service and Collective Bargaining in Los Angeles County Government. We repeated our recommendation in our May, 1976 report, The New York City Crisis and Los Angeles County Government: Organization, Employment and Compensation. In those reports we quoted a 1971 County Counsel opinion:

"Nothing contained in the courts' decisions prevents the Board from using any reasonable and appropriate method of ascertaining prevailing wages or from exercising its sound discretion in determining whether a certain method has adequately reflected prevailing wages or salaries."

Elimination of the County's step increase plan may require development of new methods of defining prevailing wages which meet the criteria of the courts. These methods will involve establishing controls to maintain County average rates close to community averages for comparable work.

The prevailing wage clause requires the County to pay salaries which are competitive with private industry. When and if the clause is deleted from

the charter, the County will still have to pay competitive rates to attract and keep competent employees. No competitive rate requirement, however, requires the County to grant automatic step increases to its employees which result in 25% increases over two years.

Thus, we do not believe that the three principal obstacles to eliminating automatic step increases are insurmountable. These obstacles - possible labor opposition, administrative costs, and the prevailing wage clause - will very likely apply to any improvement in the County's compensation practices. The fact is, that to say that they are insurmountable is equivalent to saying that the County cannot develop and implement a wage administration system which is compatible with collective bargaining, controls average labor costs, and avoids automatic pay increases.

III. SUPERVISORY LEVELS

Need for Control

In our May report, we presented estimates of supervisory levels in County departments, as measured by the ratio of the number of supervisors to the number of subordinates. In that report we emphasized the difficulty the County has in controlling the internal development of departmental organization structures. Our conclusion was that the County needs a high level organization planning function to establish standards of organizational performance, evaluate the efficiency of existing department structures, and report the potential effects of proposed changes.

For the May report, we relied on the County's Salary Ordinance to develop our estimates of supervisory ratios. Because some positions listed in the ordinance are not filled, we pointed out that the County's actual practice may differ from the data presented in the report.

Since then, at the request of Supervisor Edelman and with the assistance of his staff, we have improved the data and further refined our approach to provide an estimate of cost. Our analysis is based on the actual levels of supervision in County departments rather than on budgeted levels or levels established as standard by County position specifications. The actual levels appear to us to be high - in some departments as high as one supervisor for every two or three subordinates. While such levels may be justified in special circumstances and may be common in the public sector, we are convinced that in many cases they represent a major departure from reasonable standards of control.

We recognize that the County now performs several functions which are related to the control of supervision and organizational development. The need for positions at all levels is examined during the budget review process. Position specifications for some supervisory positions contain standards of supervisor-subordinate ratios developed by the Personnel Department. The Employee Relations Ordinance contains definitions of management and supervision.

What is lacking is a central function with specific authority to conduct further investigations, to integrate all current efforts to establish definitions and standards, to determine where improvement is needed, and to develop and implement plans for improvement with concerned departments. This function belongs in the Chief Administrative Office.

Current Supervisory Levels

Our basic source of data was the Auditor-Controller's Item Control Report, which is a monthly computerized list of the salary paid to each County employee. The list is classified into departmental payrolls, budget items, and individual employees. The report contains, for each buget item within a payroll account (a department), the total number of people employed and the dollar amount spent on salaries in the month reported. For each payroll account, the report contains the total number of employees and dollars spent for all position items.

Therefore, the item control report contains sufficient information to compute two ratios - the ratio of the number of supervisors to the number of subordinates and the ratio of the cost of supervisory employees to the cost of subordinate employees. All that is needed is a reasonable method to determine which items are supervisory.

Comprehensive analysis of the County's supervisory organization structure would require detailed studies based on interviews of personnel in each

County department. To determine whether such studies are necessary and promising, we developed an indicator of supervisory levels based on position titles. We assumed that the presence of certain key words in a title meant that the position was supervisory and that the absence of any indication of supervision meant that it was not.

The assumption is reasonable, but it does not cover all cases. Titles do not necessarily reflect supervisory responsibility when in fact it is present, and may imply such responsibility when it is not present. For example, a "Fiscal Officer" may supervise the entire financial division in a department, while a "Portfolio Manager" may supervise no one. Questionable titles require some judgment - such as whether a "Survey Party Chief" or a "Working Foreman" is supervisory.

When the presence or absence of key words was not sufficient to determine if a position should be counted, we based our judgment on such criteria as the pay level, the level of the position in a classification hierarchy, and the function of the position when we had some information about it. For example, in cases where the position title alone was not clear, we counted it as supervisory if it is paid at least \$18,000 a year. Similarly, regardless of pay, we counted such positions as supervisory when they appeared high in position classification hierarchies. For example, we counted a "Data Conversion Coordinator" as supervisory - it is the highest paid position (\$17,000) in the classification hierarchy in which it appears. Finally, regardless of the presence of supervisory key words in the title, knowledge of the functions of a "Portfolio Manager" eliminates that position from inclusion as supervisory.

The use of such criteria was rare, however, in our procedure. As we stated above, the principal method of determining whether a position was counted

as supervisory was to examine the title for key words indicating supervisory responsibility.

Hence, regardless of pay or other criteria, we always counted a position as supervisory when its title contained the following words:

Department Head	Assistant Chief
Chief Deputy	Assistant Division Chief
Regional or District Director	Head
Director	Supervising, Supervisory, Supervisor
Assistant Director	Foreman
Deputy Director	Working Foreman
Superintendent	Ranks: Sergeant, Lieutenant, Inspector,
Chief	Captain
Division Chief	

In addition, most of the time we counted as supervisory positions designated as "Coordinator", "Principal", "Manager", and "Administrative Deputy."

We rarely considered as supervisory those positions designated "Senior", "Officer", and "Master." Finally, we never counted a position as supervisory when designated "Leader", "Consultant", "Deputy III", or "Deputy IV", although some such positions are highly paid and may be associated with supervisory responsibility.

We believe that the assumptions outlined above are reasonable. It is generally true in the County that personnel with supervisory titles earn more than others with positions in the same classification hierarchy. If such employees are not supervisory, then why are they called supervisory and paid more? The question must be raised whether position re-classification has been used extensively to justify pay increases. A definitive answer to this question can only be given by conducting an intensive on-site job analysis in each department.

The results of our analysis are summarized in Table III. Although industry standards may not always apply in Los Angeles County, the following provide some basis for comparison. In operations that are highly routine, such as manufacturing and clerical work, ratios of 5%, or one supervisor for each

TABLE III.
USE OF SUPERVISION IN COUNTY DEPARTMENTS
 FY 1975-76

Supervisory Ratios* Percent	Number	Number of Departments**	Dollar Ratio***	Number of Departments**
0.0 - 5	More than 20	0	0.0 - 5	0
5.1 - 10	11 - 20	17	5.1 - 10	2
10.1 - 15	8 - 10	14	10.1 - 15	13
15.1 - 20	6 - 7	16	15.1 - 20	11
20.1 - 25	4 - 5	7	20.1 - 25	13
25.1 - 30	3 - 4	3	25.1 - 30	8
30.1 or more	3 or Less	<u>5</u>	30.1 or more	<u>15</u>
Total		62		62

* Percent means the ratio of the number of supervisors to the number of subordinates. Number means the average number of subordinates for each supervisor.

** Separate payroll accounts of the Department of Health Services are counted here as separate departments.

*** The amount spent on supervision for each \$100 of subordinate salaries.

twenty subordinates, are standard. In more complex operations, such as basic research, ratios as high as 20%, or one supervisor for each five subordinates, may occur. Ratios higher than 20%, that is one supervisor for no more than three or four subordinates, which the table indicates occur in the County, usually require special justification.

Methods of Improvement

In addition to the results in Table III, we developed aggregate cost data for the County as a whole. According to our assumptions and data, the annual cost of supervisory salaries was approximately \$190 million in fiscal 1975-76. The County spends \$25 on supervision for every \$100 of subordinate salaries and employs one supervisor for each 5.8 subordinates.

The amount of savings depends on the methods to be used to achieve the improvement. All methods of achieving savings require reduction in supervisory salaries relative to subordinate salaries. This can be accomplished in a number of ways. All except one - using normal attrition - are unpleasant. We recommend no specific action until the CAO has verified our conclusions with detailed investigations.

Since we have not conducted the necessary detailed investigation, we have no basis for determining which supervisory positions, if any, are superfluous. We cannot, therefore, confidently predict a specific level of savings. We should point out, however, that even a modest reduction in the supervisory ratio of \$25 per \$100 of subordinate salaries to \$23 could result in savings of \$13 million annually. This would require the deletion of approximately 700 supervisory positions at an average salary of \$19,160 (the average salary for positions we defined as supervisory).

A cut in supervisory positions can be accomplished in three ways. The first way involves layoffs. Under civil service rules a supervisor whose

position has been eliminated must be given a choice to accept a lower level position. Thus this method involves bumping subordinates on lower levels who in turn would bump others in lower positions. Finally, at some levels employees would be laid off.

The second way is to use attrition, that is to wait for normal turnover to create supervisory vacancies, then deleting vacant positions. The two methods would achieve the same level of savings. The use of attrition, however, delays savings for the time it takes for turnover to operate.

The same level of savings - \$13 million - can be achieved, if feasible, by a third method, involving 2000 positions instead of 700. The method is to reclassify supervisory positions as subordinate operating positions, thus retaining the employees at reduced pay but eliminating supervisory positions. The larger number of positions is required because this method relies on reclassification and salary reduction to achieve savings rather than position elimination. Salary reduction, of course, could be delayed by keeping employees at their current supervisory pay levels and denying them increases until official subordinate pay levels catch up. This method has the advantage of retaining experienced employees in whom the County has a substantial investment.

Clearly, using attrition to effect reduction is the most humane policy and should be used when the County can afford to wait for turnover.

Conclusion

The task force believes that the County must initiate strong efforts to correct its organizational structures, particularly as reflected by the use of supervision. The available information supports our conclusion that the County's supervisory costs are high. In the absence of a central source of analysis, information, and regulation these costs cannot be effectively controlled.

In some cases, supervisory ratios that are higher than usually encountered in industry may be justifiable in the County. The County has highly decentralized operations - a situation which can involve high supervisory levels when a large number of small service centers is distributed geographically through the County. Similarly, such County functions as public works engineering may require high levels of quality control and therefore more supervisory personnel.

Consequently, determining the exact current levels of supervision, deciding whether they are justifiable, and developing plans for improvement comprise complex technical tasks. They cannot be accomplished by executive order alone. The major sources of difficulty are the verification of which positions are supervisory and which are not, and establishing appropriate standards of control.

The task force concludes that it is essential for the Board of Supervisors to assign full responsibility for continuing analysis and control in this area to the CAO.

APPENDIX

ALTERNATIVE APPROACHES TO THE AUTOMATIC STEP PLAN

We have recommended that the Board of Supervisors instruct the Chief Administrative Officer (CAO) and other responsible County officials to design alternatives to the present automatic step increase plan both for represented and non-represented employees. In this Appendix we discuss the principal features which we believe should be incorporated in such alternative plans.

Our proposals differ from the County's current plan in three major ways. First, they do not result in questionably high wage increases for some employees and lower increases for others. Second, they provide a means to keep average labor costs near community averages regardless of expansion or contraction of the labor force. Third, they are consistent with collective bargaining in that managerial employees will be treated differently from represented employees.

Alternative approaches will involve four basic decisions. First is the choice between a flat rate and a salary range as the basis for pay. Second is the width of the range when a range is used - the percentage difference from bottom to top. Third is the relationship of the top of the range to the community average for comparable work. Fourth is the choice of a mechanism to control an individual employee's progress from the bottom of a salary range to the top.

Alternative Approaches - Represented Employees

We question the validity of the basic assumption that the pay for represented County positions must be based on a range of salaries, which leads to the need for a mechanism to place individual employees within the range.

Whenever possible, represented County positions should be flat-rated. Percentage increases will then depend solely on negotiations with the unions, and will be the same for all employees holding the same position. The management objective will be to negotiate a flat rate which is as close as possible to the average wage paid for comparable work in the private sector. In some cases, such as difficult recruitment cases, management may elect to pay higher rates than the community averages.

In some cases, salary ranges may be more appropriate than flat rates for represented positions. Market competition may require ranges for positions such as those held by lawyers, doctors, and engineers, because ranges are the norm in the private sector. Ranges may also be appropriate when a specific length of service is required to achieve an acceptable level of performance. This may be true, for example, for certain laboratory technicians and some clerical positions.

When a salary range is appropriate, the relationship of the top of the range to community averages, the width of the range, and the method of controlling progress through the range should depend on the specific types of positions and unions involved.

When a salary range is required for some reason - such as market competition for lawyers, doctors and engineers - it may be necessary to have ranges which are as wide or wider than the 25% now used by the County. This would be true when the comparable community ranges are wide. Similarly, competition for qualified people will govern the relationship of the top of the County's range to community averages.

The range should include all related position levels for a given type of labor - such as Deputy I through Deputy IV. Depending on the type of positions involved, progress through the salary ranges should be controlled by the

number of positions budgeted at each level, or by learning curves established for the hierarchy of positions. Either of these methods of controlling progress through the range can be used to keep average County rates close to community averages.

When a salary range is required because length of service is related to acceptable performance, the top of the range should be set as close as possible to the community average for comparable work. The width of the range will vary according to the length of time needed to reach acceptable performance, but should be in the area of 5%-10% from bottom to top - in contrast to the County's current 25%. Progress through the range will be automatic and usually rapid, since positions under this plan should not require long periods of training.

Essentially, this is a flat rate system which recognizes that some learning is required before the County can justify paying its standard rate. Based on negotiations, the top rate paid to the majority of employees in each position will change. The differences between steps should be fixed dollar amounts rather than percentages. Using this plan, the County can control the costs attributable to steps independently of the general wage level.

Whether flat rates, broad ranges controlled by position budgets and learning curves, or narrow ranges controlled by community averages are used, no meaningful performance evaluation system can be used to control the wages of represented labor. The principal reason is that any performance evaluation plan involving represented employees would make wage increases the result of managerial judgement rather than a product of union negotiation. Therefore, as a practical matter the potential for grievances is so high that such plans are undesirable from the point of view of both management and labor.

In summary, then, we believe that three or four different plans should be designed and proposed to the unions. Their differences should depend on the

types of positions represented, and should be based on the four variables we listed above - range vs. flat rate, width of range, relationship of top to community averages, and method of controlling progress through the range.

Clearly, a proliferation of different plans for all bargaining units would result in unjustifiable administrative complexity. Similarly, annual changes of the plans themselves - as opposed to specific pay rates - could generate hidden costs. Consequently, the provisions of union contracts which specify the rules governing the plan to be used should be multiple year provisions.

Alternative Approaches - Non-Represented Employees

The County has less flexibility in determining plans for managerial and non-represented employees than it does for those represented by County unions. Except in isolated instances, the only feasible alternatives are 1) flat rates or 2) ranges controlled by performance evaluation.

Regardless of which plan is used, it must be governed by two principles which are essential features of management compensation in a collective bargaining environment. The first is that the salary administration plan for managers must be part of a total compensation package - including fringe benefits and perquisites - which is distinct and separate from the compensation package for represented employees. Otherwise, those bargaining for management can benefit from their agreements with the unions. The second is that the County must grant both managers and other non-represented employees improvements of salaries and benefits which are at least as attractive as those agreed to in union negotiations.

Under a flat rate plan, the compensation for a position would be established as a single rate based upon an evaluation of the requirements of the job, scarcity of labor, internal salary relationships, and past practice. When survey data is used, flat rates should generally be set as close as possible to community averages, but may be higher or lower depending upon competitive needs. The

rate would be the same for all positions with comparable requirements, regardless of length of service or performance. The Board of Supervisors would make periodic adjustments to the rates consistent with the economy and commensurate with those agreed to with the unions.

A flat rate plan would deprive executives of any flexible means to use compensation to motivate people. In this respect, it is similar to the present automatic step plan. Neither relates employee performance to pay. Therefore, a performance evaluation system should be considered.

Under a performance evaluation plan, the pay for each position would be set within a range. The width of the range would vary with the type of position, with broader ranges corresponding to higher level positions to provide more flexibility at those levels. The top and bottom of the range would be equivalent to high and low rates paid by the private sector for comparable work.

In contrast to the current step plan, the method of controlling progress through the range would depend solely on performance evaluation. The County now uses a plan of this type for department heads. Salary increases for a department head require a positive action by the Board of Supervisors, based on the recommendation of the Chief Administrative Officer. The Department of Personnel outlined a similar plan for all managers in a May, 1974, letter to the Board.

Under a performance evaluation plan the amount of money set aside for merit increases each year would be established by the budget. Salary increases would be controlled by evaluating an employee's performance relative to the relationship of his or her current salary to the level evaluated as the community average for comparable work. Employees paid below the community average would advance to the average at a rate related to performance. Employees already above the average would advance at slower rates and would be required to

demonstrate superior performance. The position of an individual employee's salary relative to the average would change based on performance and independently of adjustments of the range itself. That is, adjustments of the range will not increase individual salaries or compound with merit increases to produce higher percentage raises.

Design and implementation of a performance evaluation system will require specification of more details than we have listed, covering such items as the organizational level responsible for evaluation, management training, the frequency and scheduling of evaluations, the required content of evaluations, the relationship of evaluation to managerial objectives, interview procedures, and the budgetary mechanisms used to control costs.

We recognize that this kind of performance evaluation system is a major departure from current practice, not only in the County but throughout the public sector. The County, like other public agencies, has had almost no experience in using this type of merit system. The tradition, rather has been that of civil service, which treats all employees in exactly the same fashion.

Obviously, any performance evaluation system is susceptible to some misjudgment and to inequities caused by differences among managers. In a government environment the additional danger of spoils politics is present. However, these systems are easy to monitor with appropriate computer support. Consequently, such inequities or any potential abuses can be kept to a minimum. In addition, the subjective elements involved in performance evaluation can be minimized by integrating the system with management by objectives, participative decision-making, and effective cost control.

Either of the plans for managers and non-represented employees will be difficult to implement in the County. Success of a flat rate plan would depend heavily on the determination of the Board of Supervisors to keep salary

improvement for this group commensurate with improvements agreed to by the unions. A performance evaluation system would depend both on the Board's ability to budget merit increases commensurate with improvements negotiated by the unions and on the ability of County managers to administer the system fairly.

Either plan would be preferable to the current automatic step increase plan. Neither would result in compounded pay raises and each is amenable to cost control centered on an established average. If implementation of a performance evaluation plan is the goal, it should be accomplished in stages starting with a full demonstration that it works effectively at the department head level. If implementation of a flat rate system is the goal, it should also be accomplished in a modular fashion, beginning with higher level executives.

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